D.H. HOWDEN & CO. LIMITED

ANNUAL REPORT

NINETEEN HUNDRED AND SEVENTY-ONE

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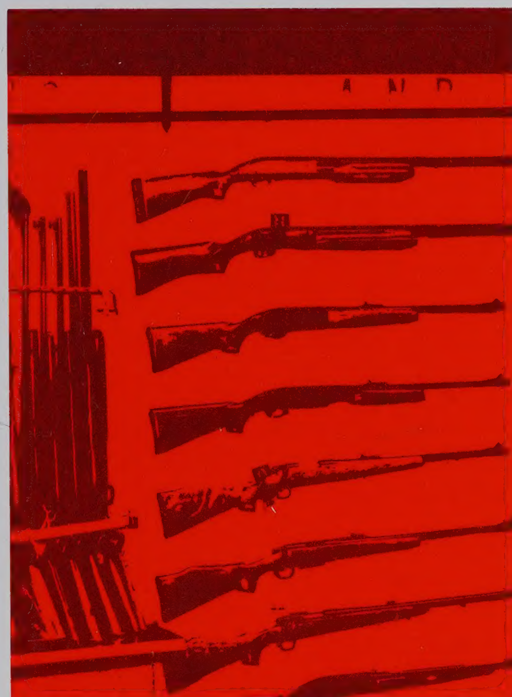

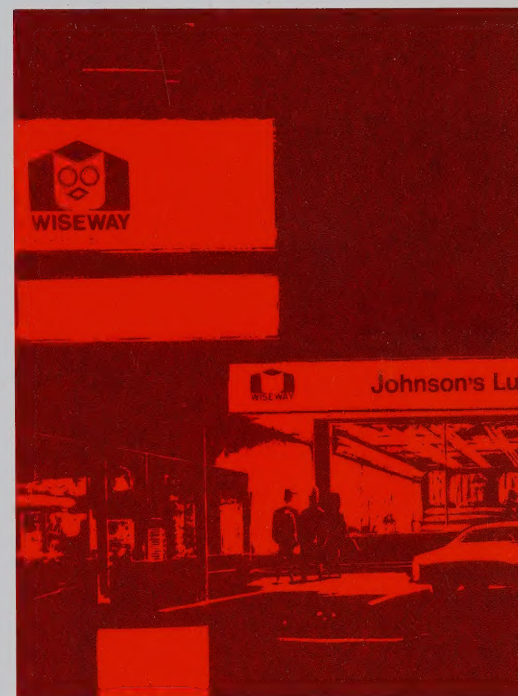

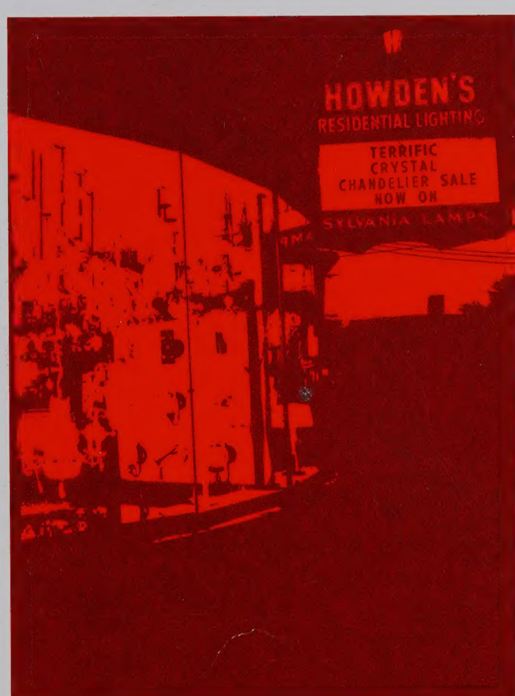

DIRECTORS	John W. Adams, F.C.A. John D. Harrison, M.B.E., Q.C. Donald R. Hughes Norman McBeth Roy W. Robertson David H. M. Stewart Joseph H. Unger
OFFICERS	President and Chairman of the Board David H. M. Stewart Secretary-Treasurer and Director of Finance Norman McBeth
SENIOR MANAGEMENT	Controller K. G. Allaster, C.A. Director — Marketing, Hardware W. J. Tarvit Director — Marketing, Electrical Supply C. W. K. Leroy Director — Operations M. C. Humphrey Director — Merchandising R. C. McKerlie
RELATED COMPANIES	Computer Horizons (Canada) Limited President — S. R. Millar Wiseway of Canada Limited President — R. T. Foran
HEAD OFFICE	635 Southdale Rd. London, Ont.
AUDITORS	Touche Ross & Co.
TRANSFER AGENTS AND REGISTRARS	Canada Trust Co. (Common Shares) Toronto, Montreal, London, Calgary, Winnipeg, Vancouver Royal Trust Co. - Toronto (First Preference Shares)

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To the Shareholders:

Total sales for the first quarter of 1971 at $4,433,869 were 4.7% below the same period in 1970. In spite of extremely adverse weather conditions of January and February, Hardware Division sales to Pro hardware stores showed a marked increase over 1970, but electrical sales and hardware sales to the Building Materials dealer were substantially below 1970 and caused the total decline in sales. Depressed conditions in the building trades continue.

Consolidated first quarter operations report a loss of $26,646 compared to a profit of $16,583 in 1970. In the Hardware Division, profits earned were in excess of 1970, but their effect was offset by inadequate sales in those Divisions servicing the construction markets generally, and in the Retail Stores Division where profits do not normally materialize until the finer weather of the spring and summer months. The consolidated loss also embraces first quarter deficits of the Company's subsidiary, Wiseway of Canada Limited, a new franchise program for Building Materials dealers, and the Retail Data Systems Division, a data control and financial reporting service for retail stores and lumber yards, both of which are still in the development stage, but which began in the month of April to generate income.

April sales are ahead of 1970, and sales volume to the building industry is tending to show the improvement which some economists have forecast as beginning in the second quarter. Upward movement in this marketing area will greatly augment the effect during the balance of 1971 of those other Divisions of the Company whose operations currently are conforming to budgeted targets.

D. H. M. Stewart
President

April 30, 1971

CONSOLIDATED STATEMENT OF EARNINGS

	For the Three Months Ended March 31	
	1971	1970
Gross Sales	$ 4,433,869	$ 4,694,563
Estimated Net Income Before Taxes (Loss)	(39,666)	22,835
Estimated Provision for Income Taxes (Recovery)	(13,020)	6,252
Net Profit After Taxes (Loss)	$ (26,646)	$ 16,583
Earnings (Loss) Per Common Share	(6.5 cents)	1.9 cents

The above information is taken from the Company's unaudited interim financial statements as at March 31, 1971 and is subject to adjustment on audit at December 31, 1971.

D. H. HOWDEN & CO. LIMITED

INTERIM

REPORT

TO THE

SHAREHOLDERS

For the Three Months Ended
March 31, 1971

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To the Shareholders:

Consolidated Sales (inclusive of Sales Tax) for the first half of 1971 at $10,472,506 were 5% over the same period in 1970. After a very slow January and February, retail hardware store sales recovered in March and continued at an improved tempo. Sales recovery in the Building Supply areas was delayed until May and as a result these Divisions of the Company did not contribute to the overall sales improvement of the first half.

We report consolidated profits of $33,178 compared to $28,615 in 1970, for an increase of 16%. Profits in the Hardware Division increased substantially largely through vigorous and continuing development of the Pro franchised retail stores. Some of the newer subsidiaries, while commencing to generate revenue during the quarter are still operating on a deficit basis, and their effect on consolidated profit at this stage is negative. Furthermore, the Income Tax provision of $86,500 relates to full Income Tax payable on the taxable income of the parent Company. To the extent that the subsidiaries generate additional income during the final six months, the impact of the tax allocation on consolidated profits will be proportionately modified, and retained earnings improved.

In spite of continuing upward pressure on operating expenses, total operating costs to the end of June were less than for the same period of 1970, reflecting cost reductions from further consolidation of operating activities, and the completion of the IBM 360-25 installation. In addition, investment in inventories was reduced by some 7% pointing up improved purchasing performance and controls.

Given a continuation of present sales buoyancy at the Pro franchised dealer level, with a continuing recovery in the area of Building Supply and construction, we look for further profit improvement over the balance of the year.

D. H. M. Stewart
President

August 9, 1971

PRO
HARDWARE STORES

Cop report

D. H. HOWDEN & CO. LIMITED

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INTERIM REPORT TO THE SHAREHOLDERS

For the Six Months Ended
June 30, 1971

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D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To Our Shareholders:

Consolidated sales to the end of the third quarter of 1971 were $16,126,952 or 6.6% ahead of the same period in 1970. As indicated in the mid year report, Company sales improved starting in March, reflecting growth in the Pro Hardware franchised stores and improved conditions in the Building Materials industry. These improved conditions continued through the third quarter.

We report consolidated income of $115,903 for the nine month period compared to $83,609 in 1970, for an increase of 38.6%. Some of the newer subsidiaries while generating increasing revenue are still operating on a deficit basis and their effect on consolidated profit at this stage is still negative. The turnover of total corporate assets and the control of operating costs continues to improve.

Given a continuation of present sales patterns we look for further profit improvement over the balance of the year.

D. H. M. Stewart
President

November 8, 1971

CONSOLIDATED STATEMENT OF INCOME

	For the Nine Months Ended September 30 1971	1970
Gross Sales	$ 16,126,952	$ 15,128,682
Estimated Net Income Before Taxes	271,903	163,609
Estimated Provision for Income Taxes	156,000	80,000
Net Income After Taxes	$ 115,903	$ 83,609
Dividends to Preference Shareholders	$ 12,942	$ 13,423
Earnings Available to Common Shareholders	102,961	70,186
Earnings Per Common Share	20.6 cents	14 cents

The above information is taken from the Company's unaudited interim financial statements as at September 30, 1971 and is subject to adjustment on audit at December 31, 1971.

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D. H. HOWDEN & CO. LIMITED

INTERIM

REPORT

TO THE

SHAREHOLDERS

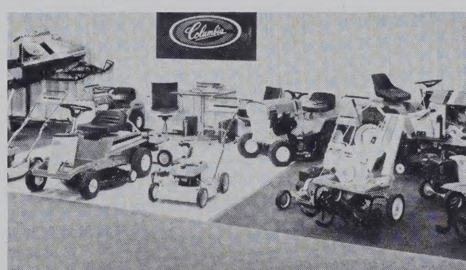
For the Nine Months Ended
September 30, 1971

TO OUR SHAREHOLDERS

Your Board of Directors is pleased to submit the Annual Report of the Company and its subsidiaries together with the Consolidated Financial Statements for the year ended December 31, 1971, and the report of the Auditors.

Sales for the year were $23,022,750, an increase of 14% over 1970. Consolidated income from operations was $160,427 or 28¢ per share compared with $104,647 or 16¢ per share in 1970.

After extremely low sales in January and February when we fell well behind on budgeted profits, sales expanded rapidly in March and continued strong throughout the balance of the year. Obviously the reversal of restrictive Government monetary policy had a salutary effect on both the economy and consumer spending. New money available for building brought about improved conditions in the construction industry and Howden's sales in this area improved after mid-year.



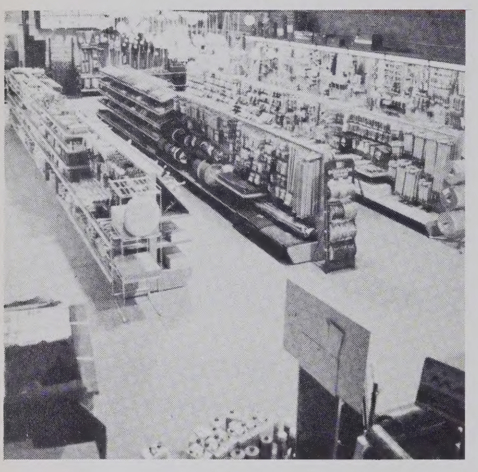
HARDWARE DIVISION

The number of Pro Hardware stores increased during the year and this after terminating several Dealer Franchises because of inadequate performance. The goal is to upgrade stores so that consumers will be provided with better shopping convenience, superior technical assistance and more attractive values. In addition, an improved consumer advertising program was instituted to increase store traffic substantially, and to identify Pro as being in the forefront of consumer values. This advertising program will be further expanded in 1972.

The effect of all these developments has been excellent. Sales to Pro stores increased by 29% over 1970, and in general the Hardware Division achieved highly gratifying results.

During the year the Company completed an agreement with the MTD Corporation of Cleveland, Ohio, whose Canadian manufacturing facility is located in Kitchener, Ontario, to commence a Columbia Franchise program addressed to Ontario Lawn Equipment dealers. The Franchise provides for the distribution of tractors, tillers, lawn mowers and snowmobiles of superior quality and value through volume Franchise Dealers.

BUILDING PRODUCTS DIVISION



Model Wiseway store layout at head office to test new merchandising ideas.

The Building Products Division, concentrates its sales efforts to building materials dealers. The increase in housing starts at mid-year gave the Division welcome impetus that has carried through the winter months.

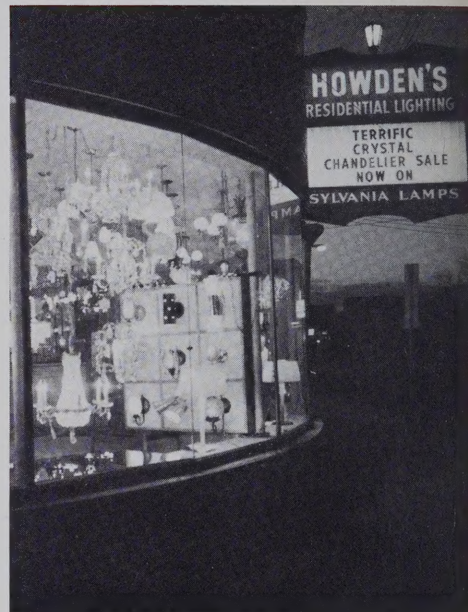
During the year management spent much time redesigning dealer programs to meet new market conditions, concentrating particularly on the growth of the Home Centre concept and the "do-it-yourself" market. As a result of these efforts, and improved conditions relative to house construction, the Division faces 1972 with confidence.

WISEWAY OF CANADA LIMITED

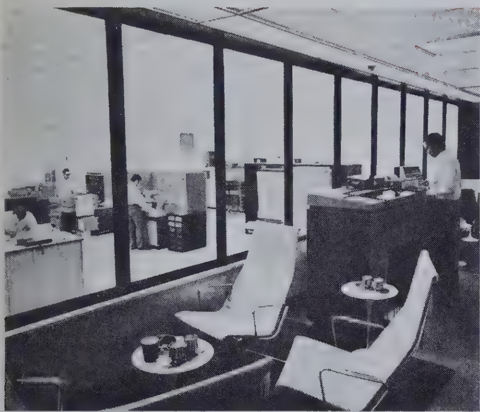
The Wiseway concept is a total franchise program designed to provide the Building Materials Dealer with low purchasing cost, and to organize his operation for consumer sales. It was not until mid-year that we were able to complete key Wiseway buying arrangements, and this restrained development of the program. While the number of fully operative Franchise Dealers is still below target, the schedule for activation of new members during the first six months of 1972 indicates considerable progress. The Wiseway consumer advertising campaign, an integral part of the total service offered, will be launched during this period.

Financial computer systems are an important feature of Wiseway in helping the dealer to achieve greater control of his financial affairs, and more profitable turnover of his assets. This unique Wiseway offering which strongly supports the Building Materials Dealer in adapting to current consumer merchandising trends, is not presently available from other sources.

ELECTRICAL SUPPLY DIVISION



Howden's Electrical Supply had a much improved year over 1970 through more selective selling and more effective control of costs. Its Sarnia branch attained a profitable situation during the year. The Division looks for continued improvement throughout 1972. Early in 1972 the Company opened a Kitchener branch which will provide expanded services under its Span-Canada franchise in that area.



Operations room at the head office of the Management Horizons Computer Center,Columbus Ohio. Building completed November 1971.

This company is a joint venture witn Management Horizons Incorporated of Columbus, Ohio, and has exclusive rights to sell the Management Horizons Data Processing Systems in Canada. Howden is scheduled to join the system as a subscriber about mid-year, being connected by data telephone lines to two giant computers in Columbus. The benefits of the most advanced computer system available in the distribution field today will thus be obtained at a cost less than present in-house computer costs. The system provided is total in the fullest sense of the word, and includes "Sci-Buy" an advanced inventory management system which contains many forecasting features not possible on smaller equipment.

When installation is completed at Howdens, marketing efforts by Computer Horizons (Canada) Limited will be expanded to sell the system to other Canadian distributors in Hardware, Drugs, Food, Electrical and Plumbing. The MHDS program is unique and should enjoy an outstanding future. Over one hundred sites in the U.S.A. have currently joined the system including some of the largest distributors in Hardware and the above mentioned commodities. The first site went on line successfully in November 1971, and others are joining the system at the rate of about six installations per month. These implementations, combined with the growing acceptance of the Howden Retail Data Systems, not only lend affirmation to the Computer Horizons marketing philosophy, but also provide some portent of the financial benefits which will in due course emanate therefrom.

FINANCE

To maintain and improve the Company's financial position, emphasis has been placed on asset management and working capital improvement throughout the year. In spite of the pronounced increase in sales (14%), inventories have been maintained at levels comparable to last year, and the rate of turnover has correspondingly increased. The trend has been most noteworthy in the Company's major Hardware Division whose inventories have been under computerized control for some time and which now reflect the success of the techniques so developed. Accounts receivable are higher than in 1970 by reason of increased sales levels during the last two months of the year, and inclusion of Wiseway accounts for the first time. The quality of the accounts has steadily improved throughout the year and collection periods have been shortened in all Divisions. The Company's working capital position has increased by $159,924. Short term borrowing was comparable to last year, and all expansion has been financed out of internal resources.

FINANCE

Profits earned by the three major Divisions - Hardware, Electrical and Building Products - conformed to budgeted levels and are viewed as satisfactory for the period. Losses in those subsidiaries responsible for a small group of wholly-owned retail outlets, were greater than anticipated and detracted from consolidated earnings. The consolidated effective tax rate thus is unusually high for the year at 61%.

The Company's properties and equipment are well maintained and capital expenditures have been kept to a minimum. Service provided by all the Company's facilities is highly regarded throughout the respective industries. Increasing volumes anticipated for 1972 will be processed with only modest expansion in operating costs.

Insofar as the merchandising areas of the business are concerned - hardware and electrical supply - the Company experienced the most profitable year in its long history. This was directly a result of expanded sales, cost control and higher turncver of assets. However, growth during 1971 in several of the newer subsidiaries has been labored, and some areas of the business as referred to earlier have incurred results adverse to consolidated earnings. Obviously the major task of management in 1972 is to concentrate funds and to accelerate growth in those areas of the business where our strengths reside - modern low cost distribution and working through franchised dealers.

OUTLOOK

Our budgets call for improved sales and profits during 1972. This is supported by increases experienced during the first quarter. Certainly expansion of retail spending and economic growth stem only from a stabilized and optimistic economy. We welcome therefore what seems to be a growing awareness in Government circles of the sense of uncertainty created throughout the business community and society in general by proposed radical legislation that threatens a revolution in business practices - practices which built the prosperous life style and economic community we know. We express the hope that the Government will now work to restore confidence needed to sustain economic growth, in which case we look for an excellent year.

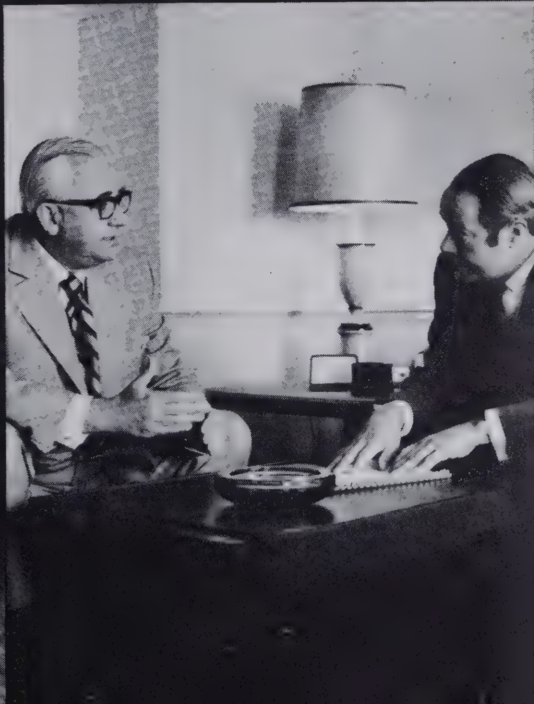
On behalf of the Board we express appreciation for the goodwill of our customers, the experience and loyalty of our employees, the excellent relations we enjoy with suppliers and for the support of our Shareholders.

David H. Stewart

President

Photo, Left to Right:
Messrs. J. W. Adams, F.C.A., R.W. Robertson, David H. M. Stewart, D. R. Hughes, N. McBeth

Insert:
Messrs. D. H. M. Stewart and J. D. Harrison, Q.C.



D.H. HOWDEN & CO. LIMITE
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CONSOLIDATED BALANC
(with comparative figure

ASSETS

	1971	1970
Current		
Cash	$ 70,917	$ 149,699
Accounts receivable, less allowance for doubtful accounts of $162,489 in 1971 and $146,441 in 1970	3,695,805	3,089,443
Income taxes recoverable	—	60,281
Current portion of mortgage receivable	20,000	20,000
Inventories — at the lower of cost and net realizable value	2,651,372	2,592,864
Prepaid expense	80,991	76,004
	6,519,085	5,988,291
Property, plant and equipment — at cost	537,530	491,186
Less accumulated depreciation	284,947	243,355
	252,583	247,831
Other		
Cash surrender value of life insurance	16,957	18,828
Investment in and advances to 50% - owned company - at cost (Note 2)	49,861	67,728
Equity in unconsolidated subsidiaries - at cost (Note 1)	2,800	2,800
Mortgage receivable	200,000	220,000
Deferred income taxes (Note 3)	22,000	27,800
	291,618	337,156
	$ 7,063,286	$ 6,573,278

On behalf of the Board

Director DAVID H. M. STEWART

Director N. McBETH

D.H. HOWDEN & CO. LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

		1971	1970
Source	Income		
	Net income for the year	$ 160,427	$ 104,647
	Non cash charges - Depreciation	49,080	42,411
	- Deferred income taxes	5,800	1,600
		215,307	148,658
	Reduction in mortgage receivable	20,000	—
	Reduction of advances to 50% owned company	17,867	—
	Proceeds from sale of life insurance policy	2,880	—
	Sale of shares in unconsolidated subsidiary	—	10
	Refund of special refundable tax	—	1,937
	Proceeds from agreement for sale	—	285,000
	Proceeds from disposal of equipment	4,281	—
	Second preference shares issued	35,500	25,500
	Debentures issued	31,500	—
		$ 327,335	$ 461,105
Application	Additions to property, plant and equipment	$ 58,113	$ 79,452
	Increase in cash surrender value of life insurance	1,009	1,271
	Investment in and advances to 50% - owned company	—	67,728
	Decrease in long-term debt	51,885	30,423
	Investment in mortgage receivable	—	220,000
	Purchase of first preference shares for redemption	500	16,250
	Purchase of second preference shares for redemption	35,000	18,000
	Payment of dividends	20,904	21,493
		$ 167,411	$ 454,617
	Increase in working capital	$ 159,924	$ 6,488

AND SUBSIDIARY COMPANIES
the laws of Ontario)
SHEET AS AT DECEMBER 31, 1971
as at December 31, 1970)

LIABILITIES

	1971	1970
Current		
Bank indebtedness - secured	$ 1,265,064	$ 1,045,875
Accounts payable and accrued liabilities	1,846,189	1,830,359
Current portion of long-term debt	32,037	30,523
Income taxes payable	134,337	—
	3,277,627	2,906,757
Long-term debt (Note 6)	1,072,856	1,093,241

SHAREHOLDERS' EQUITY

	1971	1970
Capital stock (Note 7)		
5½% cumulative redeemable participating sinking fund first preference shares of $50 par value each		
Authorized and issued		
1971 - 4,701 shares; 1970 - 4,711 shares	235,050	235,550
3% non-cumulative redeemable second preference shares		
Authorized shares of $1 par value each		
1971 - 369,000 shares; 1970 - 404,000 shares		
Issued		
1971 - 278,000 shares; 1970 - 277,500 shares	278,000	277,500
Common shares		
Authorized - 1,000,000 shares without par value		
Issued - 500,000 shares	290,500	290,500
Retained earnings	1,909,253	1,769,730
	2,712,803	2,573,280
	$ 7,063,286	$ 6,573,278

OLIDATED STATEMENT ETAINED EARNINGS FOR YEAR ENDED DECEMBER 71 (with comparative figures 70)

	1971	1970
Balance at January 1	$ 1,769,730	$ 1,686,576
Add net income for the year	160,427	104,647
	1,930,157	1,791,223
Deduct: Dividends -		
First preference shares	12,942	13,423
Second preference shares	7,962	8,070
	20,904	21,493
Balance at December 31	$ 1,909,253	$ 1,769,730

OLIDATED STATEMENT COME FOR THE YEAR D DECEMBER 31, 1971 comparative figures for 1970)

	1971	1970
Gross sales	$23,022,750	$20,118,085
Less sales tax	1,720,135	1,606,042
	21,302,615	18,512,043
Cost of sales and operating expenses other than items noted below	20,764,637	18,178,108
Interest on long-term debt	69,671	71,277
Depreciation	49,080	42,411
	20,883,388	18,291,796
Income before income taxes	419,227	220,247
Provision for income taxes - current	253,000	114,000
- deferred	5,800	1,600
	258,800	115,600
Net income for the year	$ 160,427	$ 104,647
Earnings per share	$0.28	$0.16

1 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Howden-Howland Limited, Cowan Hardware (1968) Limited, D.H. Howden Stores (Central) Limited, and Wiseway of Canada Limited.

The equity of D.H. Howden & Co. Limited in unconsolidated subsidiaries consists of the company's investment in Pro Hardware (Canada) Limited and in Span-Canada Electric Limited. These companies are composed of a number of non-competing wholesalers across Canada who participate in an integrated merchandising program and volume purchasing. While these two companies are technically subsidiaries of D.H. Howden & Co. Limited through ownership of voting control, the volume discounts derived from their operations are apportioned to the participating member companies on the basis of volume. The portion of such volume discounts attributable to the purchases by D.H. Howden & Co. Limited has been reflected in the accompanying financial statements but it was considered inappropriate to consolidate the assets and liabilities of these companies since they consist primarily of amounts due from unrelated companies to these subsidiaries with offsetting amounts due to various manufacturers for purchases made on their behalf.

2 JOINTLY-OWNED COMPANY

	1971	1970
Investment - 20,000 common shares of no par value	$ 1,000	$ 1,000
Advances of working capital	48,860	66,728
	$ 49,860	$ 67,728
Contingent liability re: guarantee of bank loan	$ 75,000	$ NIL

Computer Horizons (Canada) Limited is a company jointly owned with Management Horizons Data System Inc. of Columbus, Ohio. The company incurred a net loss of $38,526 for the year ended December 31, 1971 and has an accumulated deficit of $113,985 as at that date. D.H. Howden & Co. Limited's share of the accumulated deficit amounting to $56,992 has not been reflected in these accounts. The company has also guaranteed the repayment of all liabilities of Computer Horizons (Canada) Limited. At December 31, 1971 the excess of liabilities over assets amounted to $111,985.

3 DEFERRED INCOME TAXES

Deferred income taxes arise only on consolidation because the elimination of inter-company profits in inventories results in a decrease in consolidated net income for the year and a consequent reduction in consolidated income taxes payable.

4 LEASE OBLIGATIONS

Annual rentals payable for warehouse and retail premises under leases expiring more than three years from December 31, 1971 approximate $137,000. Such leases expire at varying dates before 1995.

5 CONTINGENT LIABILITIES

The company is contingently liable in the amount of $209,000 for the guarantee of bank loans and conditional sales contracts, inclusive of the bank loan of Computer Horizons (Canada) Limited.

6 LONG-TERM DEBT

	1971	1970
D.H. Howden Stores (Central) Limited 8% chattel mortgage repayable in semi-annual instalments of principal of $2,143 plus interest, maturing August 1, 1976	$ 21,429	$ 25,714
Cowan Hardware (1968) Limited 8% first mortgage debenture repayable in monthly instalments of $1,923 blended principal and interest, maturing May 1, 1977	101,464	117,050
Wiseway of Canada Limited 6% unsecured debentures repayable within one year of termination of franchise agreements	31,500	—
D.H. Howden & Co. Limited 6% floating charge sinking fund debentures maturing May 1, 1989	950,500	981,000
	1,104,893	1,123,764
Less portion due within one year	32,037	30,523
	$ 1,072,856	$ 1,093,241

Under the terms of the Trust Indenture dated May 1, 1969 relating to the 6% sinking fund debentures, the company is required to pay to the trustee for sinking fund purposes by May 1 each year, a sum equal to 10% of the company's net income excluding that of subsidiary companies.

7 CAPITAL STOCK

First Preference Shares

The provisions relating to the payments of dividends confer upon the holders of first preference shares a right to participate in dividends on an equal basis with the common shareholders up to a maximum of $2 per share, after a dividend of $.06 has been declared on each common share.

Under the redemption provisions attaching to the first preference shares, 10 shares were purchased for cancellation during the year at a cost of $430.

Second Preference Shares

During the year 35,500 second preference shares were issued for cash and 35,000 shares were redeemed at par value.

8 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration for the year of the Directors and Senior Officers amounted to $147,510 of which $124,510 was paid by the Company and its consolidated subsidiaries and $23,000 was paid by unconsolidated subsidiaries.

9 COMPARATIVE FIGURES

The comparative figures have been reclassified where necessary to conform with the current year's classification.

AUDITORS' REPORT

The Shareholders,
D.H. Howden & Co. Limited,
London, Ontario.

We have examined the consolidated balance sheet of D.H. Howden & Co. Limited and its subsidiaries as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LONDON, Ontario,
February 4, 1972.

Touche Ross & Co.
Chartered Accountants.